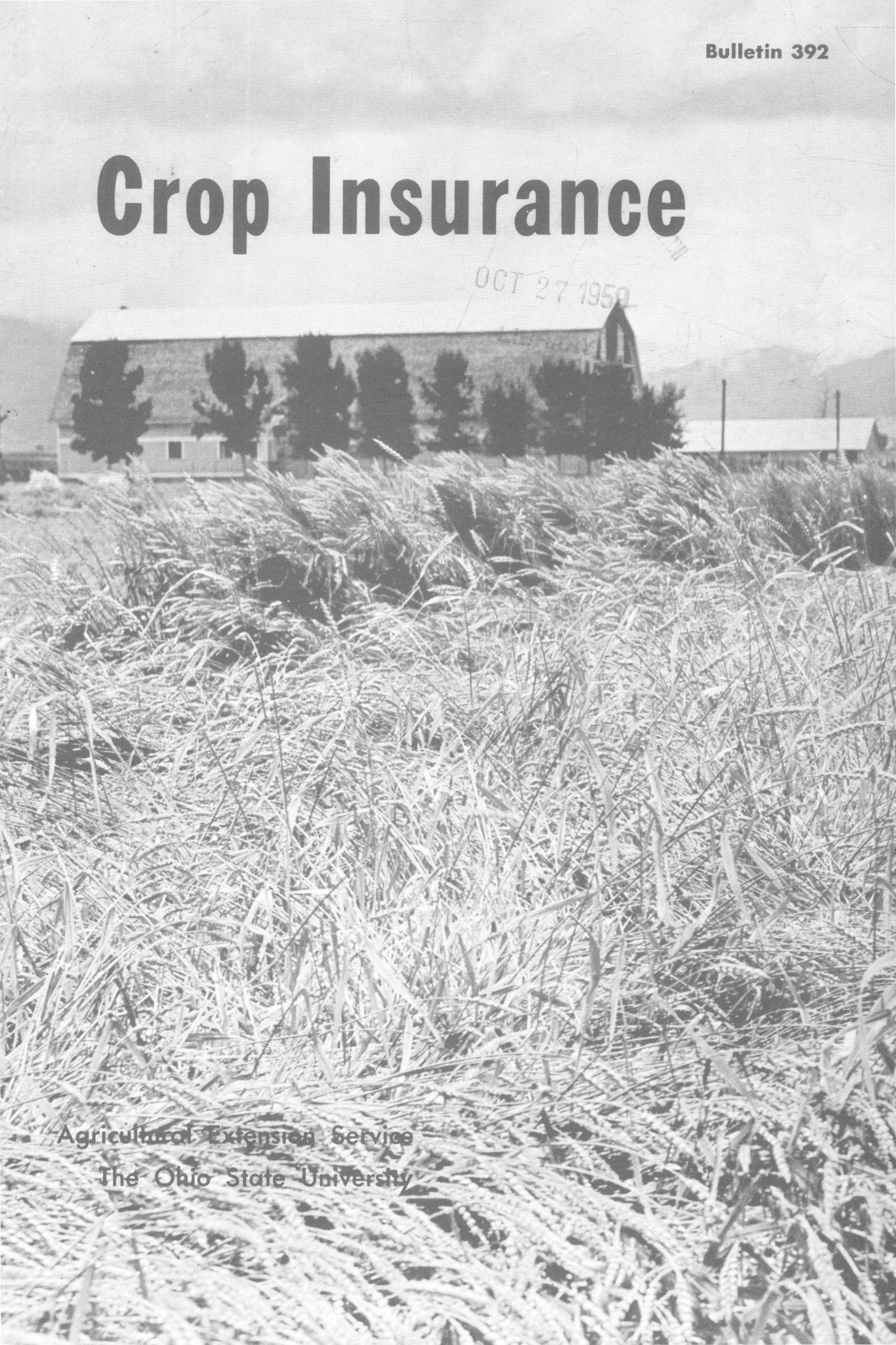
Bulletin 392

Crop Insurance



Agricultural Extension Service
The Ohio State University

Contents

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Crop Insurance

Prepared by

WALLACE BARR and RILEY DOUGAN

Extension economists in agricultural economics and rural sociology

In cooperation with

EDGAR HEMPY

Ohio director of the Federal Crop Insurance Corporation

When we invest money we assume a risk of a loss of the investment. The risk is much the same whether the investment is in a car, a truck, a building, goods to be sold or even a life.

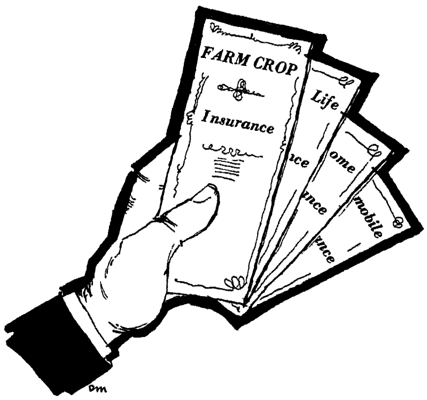
Society has developed a means of protecting those who face these common risks. This device is INSURANCE, which brings to each person the benefit of the safety that lies in numbers. When there is a risk of losing the investment because of an uncontrollable twist of fate, insurance has become a normal part of the American way of life.

The reason for insurance participation is because individuals or groups do not know where or when disaster will strike. The "good luck" we may have enjoyed in the past is no guarantee that it will continue in the year(s) ahead. Insurance is a means by which people join together to share the risks ahead. Only the rate structure of insurance is concerned with the past. Its guardianship is over the present and the future. This is a point we often fail to evaluate properly, particularly in thinking about and ahead on crop insurance.

Crop insurance could become the answer to one of the age-old farm problems. This problem is that after the producer has done his best, he is still at the mercy of luck and the elements. While the risk of total or substantial failure varies from one farming area to another, the best and the poorest cropping efforts are subject to factors that can bring total failure.

Crop insurance is a means of insuring against many unavoidable causes of loss that can destroy a crop. It also protects against new causes of loss that may develop in the years ahead due to insects, disease, etc. — both the known and the unknown risks in an area or on a particular farm. Neglect, poor farming practices, theft and low prices are not among the many insurable causes of loss.

Through crop insurance, money spent to produce crops is now being insured in many counties under the same basic operating principles that make other types of insurance protection available to farmers, home owners and businessmen.



Types of Crop Insurance

Independent Multiple Risk Insurance

The Independent Multiple Peril Risk Insurance — operating in 11 Ohio counties — was established by a group of privately owned insurance companies in 1956. It is not a part of the Federal Crop Insurance Program. It operated in less than 100 counties in the United States in 1958. The crop insurance offered by this group, however, is somewhat similar to that offered by the Federal Crop Insurance Corporation. This insurance pool is one of the two sources of crop insurance for farmers in Ohio and the United States.

The existence of private companies indicates that they may benefit from the "trail blazing" of a government program. The Federal Crop Insurance Corporation has followed the policy of not offering Federal All-Risk Crop Insurance in the counties where Independent Multiple Peril Risk protection is available through private insurance companies.

Federal All-Risk Crop Insurance

The other source of crop insurance for farmers in Ohio and the United States is the Federal Crop Insurance Corporation, an agency of the U.S. Department of Agriculture. It was operating in 1958 in 34 Ohio counties and 830 counties in the United States. Prior to 1948, the Federal Crop Insurance Corporation was providing crop insurance to farmers in over 2,500 counties in the United States but only on wheat, cotton, flax and a few experimental counties on corn and tobacco.

In 1948, Congress reduced the Federal Crop Insurance Corporation's activities until only 375 counties were participating. The same crops were insured as previously. The object of the reduction was to keep the volume of insurance and amount of risk small while improving the soundness of the insurance.

This basic, broad insurance is not in direct competition with any private insurance. In fact, although this type of insurance had been requested by farmers for many years, it was not started until private insurance representatives advised Congress that there was little possibility of private insurers ever entering this high-risk field unless the government could demonstrate that such insurance could be profitably written. A few attempts had been made by private insurers to write such protection, but all these attempts were very short-lived.

Federal Crop Insurance is described as ALL-RISK because its broad coverage extends over all the natural hazards which can destroy the farmers' crops. These hazards include too much and too little rain, flood, hail, wind, frost, winterkill, lightning, fire, snow, wildlife, hurricane, tornado, earthquake, insects, heat, plant diseases and any primary or secondary destruction due to weather, such as crusting of ground.

Federal All-Risk Crop Insurance is the basic farm crop investment insurance offered by the Federal Crop Insurance Corporation. It has an authorized capital stock of $100,000,000 in addition to its revenue from premiums paid by policyholders. Thus, government stands behind the policies in the event crop losses are so widespread in any one year that the annual premium income and premium reserves are insufficient to cover all losses.

Administrative costs which require a significant part of most insurance premium dollars are not included in the premium rates paid by FCIC policyholders. The corporation receives an annual appropriation for administration.

U.S.D.A. Photo

Hail damage to corn.

Availability of Federal Crop Insurance

The map indicates the Ohio counties in which two types of crop insurance were available in Ohio in 1958. There were 45 Ohio counties in which farmers could purchase crop insurance on one or more crops. This map also indicates the crops on which insurance is available.

Federal All-Risk Insurance was available in 830 counties in the United States in 1958. A few additional counties will be added in 1959. Additional crops will be insured in some of the present insurance counties. Table I shows the number of counties in Ohio and the U.S. for which different crops were insured:

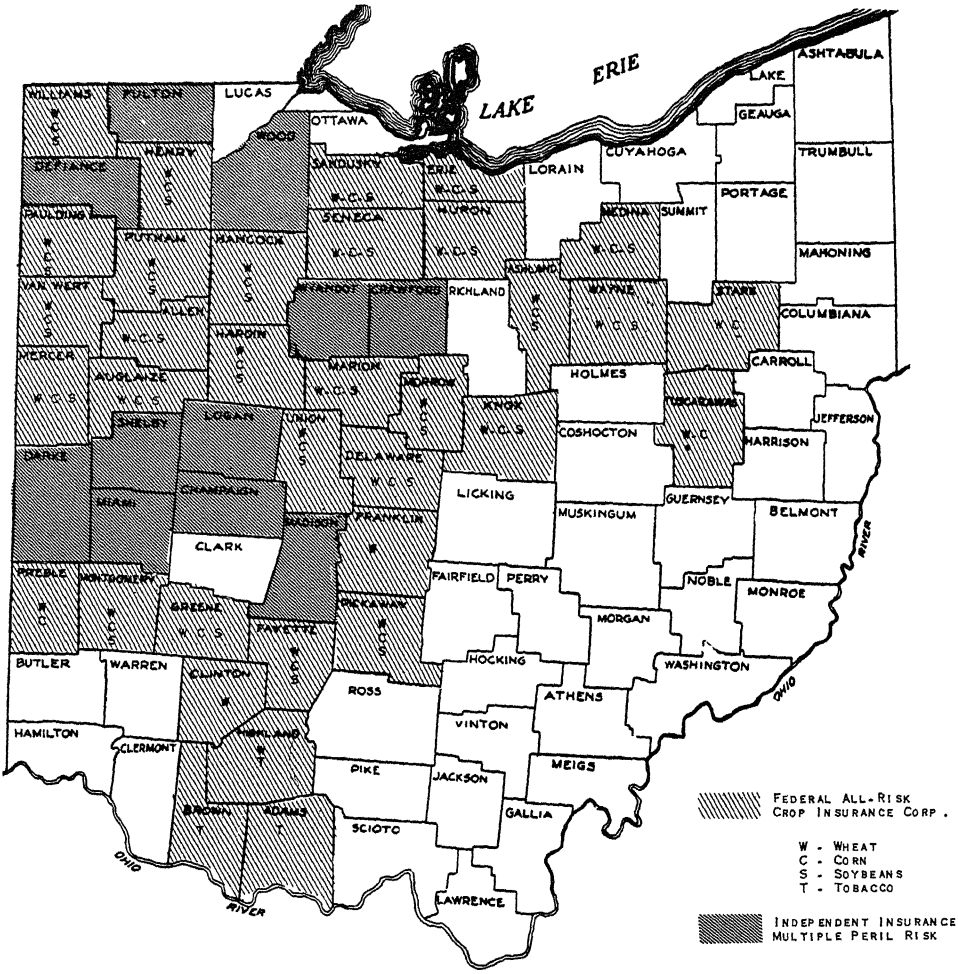
TABLE I

Number of Counties With Various Crops Insured by Federal All-Risk Crop Insurance Corporation in Ohio and U.S., 1958

	U.S.	OHIO		U.S.	OHIO
Wheat	394	32	Flax	55	—
Corn	207	29	Barley	27	—
Tobacco	151	3	Beans	20	—
Soybeans	135	26	Citrus	3	—
Cotton	118	—	Oranges	1	—
Multiple	100	—	Peaches	1	—

SOURCE: Federal Crop Insurance Corporation

Availability of Two Types of Crop Insurance
In Ohio, 1958



Legislative Authority

The legislation under which all-risk insurance is being developed and offered, "The Federal Crop Insurance Act," states that:

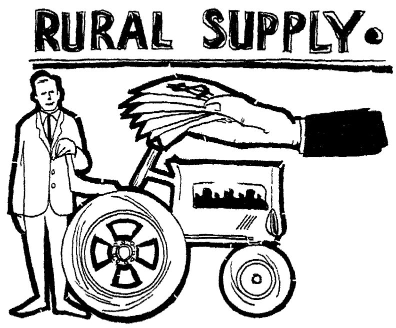
"It is the purpose of this title to promote the national welfare by improving the economic stability of agriculture through a sound system of crop insurance and providing the means for the research and experience helpful in devising and establishing such insurance."

The legislation restricts the maximum amount of coverage that may be offered by the corporation to the lower of (1) the cost of producing the crop in an area or (2) 75 per cent of the average yield.

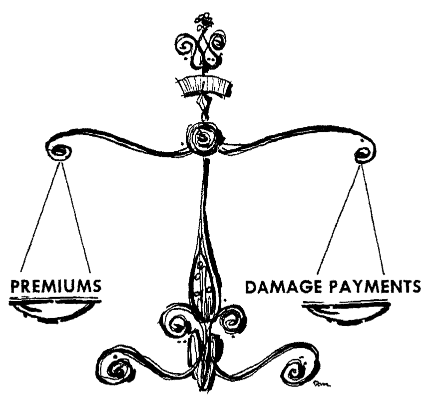
Objectives

The stated objectives of Federal Crop Insurance are:

(1) To develop a crop insurance plan to enable farmers to protect all or a major part of the investment in crops against unavoidable losses from causes over which they have no control at a reasonable cost,



(2) To benefit those with whom the farmer trades and works and thus extend the benefit and value of this farm service on through the national economy, and



(3) To develop a sound program in which all losses, over a representative period, can be paid out of premium income.

Constant effort to improve the insurance provisions, the operating method, actuarial structure and selection of risks have contributed toward the attainment of the self-supporting goal.

Type of Protection

The insurance starts and ends with the *cost of producing* crops. Its field of protection does not extend to profit. It is designed to place a floor under the worst that can happen to the farmer in his effort to produce. It assures some return for the time, labor and money invested in the crop which otherwise might be zero. It is intended to pay indemnities when the farmer's efforts fail through no fault of his own.

Federal Crop Insurance is designed to protect the farmer against all the unavoidable risks that could destroy his crops — both the known and the unknown. Consequently, the disaster risk is extremely high as compared with insurance offering protection on one, two or three specified risks. Therefore, its protection is not as high as many farmers would like. This is why the premium rates may be higher than some may feel are justified.

Crop insurance is not confined to those farmers in the most desperate financial circumstances any more than fire insurance is designed chiefly for those who could not afford another place to live if the insured house burned. Like other insurance, it is designed to protect all who can meet the eligibility requirements against the financial loss that results from crop failure.

Insurance does not and cannot eliminate loss. The total direct cost to society of losses from crop failure is not reduced by insurance. However, the impact of this loss on an individual is greatly reduced by exchanging the risk of large loss for the certainty of the cost of an insurance premium.

Today every farmer has a major investment in his growing crops in the form of fertilizer, seed, gasoline, pesticides, labor, farm machinery, etc. Investment in these items is rising as many farmers increase their production costs to expand their profit potential.

The financial impact of crop failure on the farmer's future, farming methods, purchasing power, credit, debt or reserves is greater today than ever before in the history of agriculture.

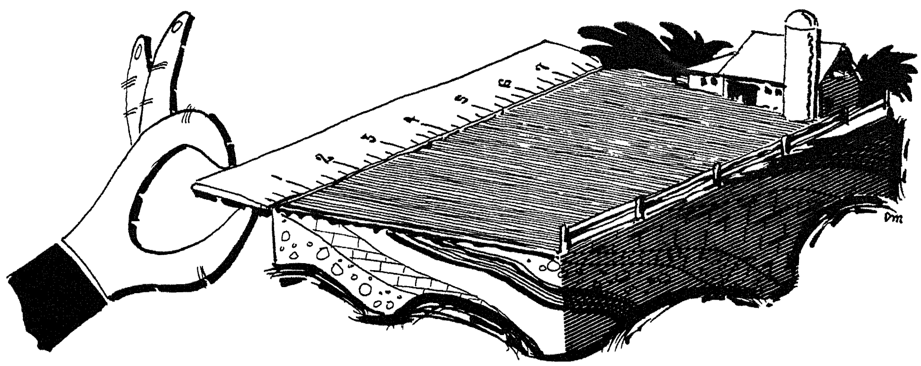
How It Works for the Farmer

From the standpoint of the policyholder, crop insurance has only one significant difference from other insurance. This difference is the annual establishment of the amount of protection and the premium due. The policyholder files an acreage report showing all insurable acreage in which the insured had an interest at planting, its location, the insured's interests, and others who share in the acreage with him.

Otherwise, crop insurance operates the same as other insurance. It is obtained by filing an application and having it accepted. The insured pays the premium. He notifies the corporation representative in the county when his crop is materially damaged during the growing season and if he thinks he has a loss.

A FCIC adjuster will, at the policyholder's request, inspect and appraise damaged acreage and approve other use. If any acreage on a unit remains for harvest, the loss cannot be settled until after harvest.

The FCIC adjuster inspects the field(s), determines the acreage and production to be counted. The farmer is required to keep a record of his production. After the adjuster has made the determinations



necessary to calculate the amount of loss, the policyholder's claim for indemnity is processed, and he receives a check to cover the insured loss.

The farmer with crop insurance must file an acreage report within 30 days after planting of the insured crop is generally completed in that county. Failure to file a timely acreage report will not relieve the policyholder of the premium due. If he does not file the report, the Corporation will establish the acreage and bill him for the premium, if the crop is in good condition. The Corporation will also declare the acreage zero for insurance claim purposes, if the crop has been damaged when its representative makes the determination of the amount of insurable acreage planted by the policyholder.

While it is the responsibility of the insured to report his acreage in a timely manner, the local representative(s) of the FCIC use every reasonable means of making it easy for the policyholder to report. The local agent will assist him in any way he can.

General Organizational Pattern

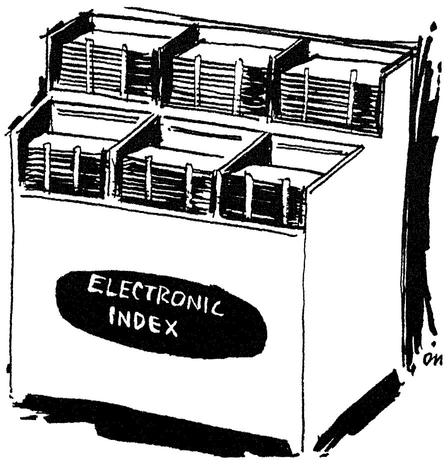
In the United States

The Secretary of Agriculture is responsible for the administration of Federal All-Risk Crop Insurance. A board of directors is appointed by him to establish and change as needed the policies of the corporation within the legislative boundaries. The executive head is the manager appointed by the Secretary. The manager is a member of the five-man board which must include two persons experienced in the insurance business who are not otherwise employed by the government, and two others employed in the Department of Agriculture.

The headquarters office for administration is in the Department of Agriculture in Washington, D.C. There is a branch office in Chicago which is the central business office through which premiums are processed and claims paid. Underwriting work is handled through the Washington and regional offices. There is a regional office in Indianapolis servicing Ohio, Indiana, Illinois and Michigan.

In the States

A State Director is in charge of insurance operations in areas that may include one or more states. Under him are



Processing claims and premiums

district supervisors for groups of counties. Generally, in each county there is an insurance agent, appointed by and responsible to the State Director and the supervisor for that district.

Loss adjusters are appointed by and are responsible to the State Director and his supervisors. Loss adjusters for the most part are part-time employees and are usually farmers who work when needed and may serve one or several counties.

Local Administration

Local administration is being handled in most Ohio counties by appointing several farmer-agents, who handle the insurance work from their homes for their area of the county. This unique method of local farmer administration is regarded as having significant potential as a method of unusually satisfactory servicing of contracts for the policyholders as well as administrative economy.

Twenty Years of FCIC Experience

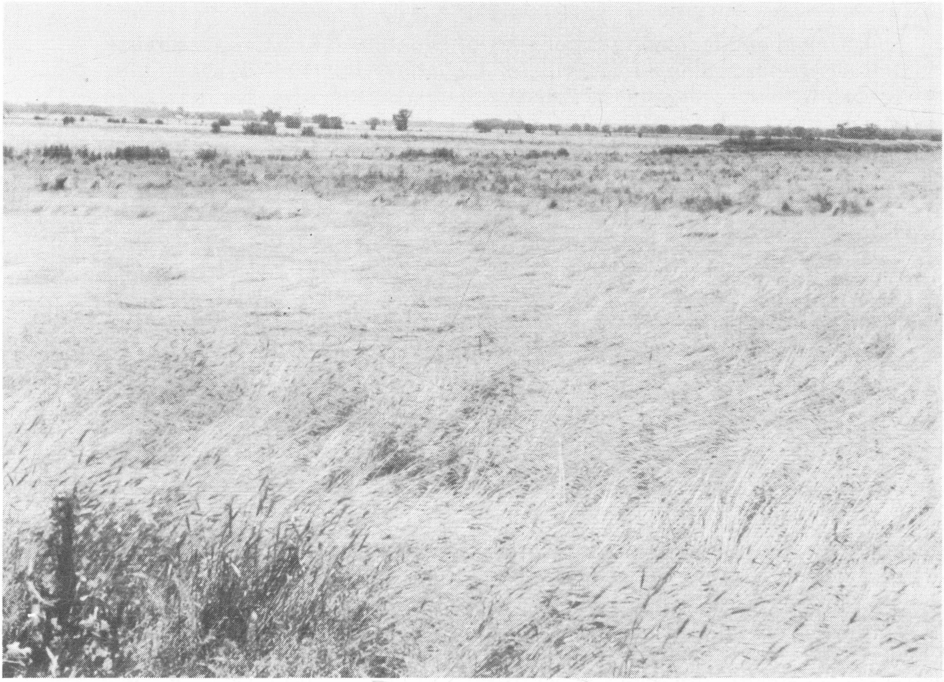
The Federal Crop Insurance Corporation has had 20 years of experience pioneering a new insurance field. The experimental work and experience have demonstrated that a sound insurance operation can be developed, if basic insurance principles are followed. Twenty years of seeking to develop a sound base for expanding both the number of crops and the area insured has resulted in major progress toward providing adequate protection for farmers in Ohio and other diversified areas.

The fact that the insurance operation over the recent 10-year period could balance premiums with indemnities is highly significant. This reflects a steadily improving operation since 1939, when the all-risk insurance experiment was launched in an uncharted insurance field.

Wheat was insured nationally starting in 1939, and cotton was added in 1942, on a national basis. Losses in this huge insurance experiment were so heavy that Congress inactivated the program in 1944, but put it back into effect in 1945.

Congress directed that insurance be offered nationally on wheat, cotton and flax with experimental operations on corn and tobacco. Wheat experience improved to a major degree, but cotton losses were heavy in 1945 and 1946. Therefore, Congress limited operations starting in 1948, and directed the corporation to develop a sounder basis for the all-risk protection from a smaller experimental base. This experimental phase started with insurance for only 375 county programs compared to 2,400 operating in 1947.

In 1958, insurance was offered in 830 counties. In many counties it covered several crops. During the gradual expan-



Wheat damaged by wind and rain.

sion, insurance has been added on dry edible beans, soybeans, barley, citrus fruits, peaches and multiple crop. Multiple crop insurance provides one combined coverage for all the crops insured on the farm. Insurance on grain sorghums is being initiated in 1959.

The corporation was directed by Congress to test insurance in all representative areas throughout the nation. As a result, experience has required exclusion from the program of some high-risk land in many counties and 14 entire counties in the "Dust Bowl" area.

Experience in the last 10 years indicates that in the present program, losses can be paid out of premiums. Whether expanded volume and economies in administrative method might eventually enable farmers to have a completely self-sustaining all-risk insurance program is not yet determined.

Excluding the 14 "Dust Bowl" counties mentioned above in which the risk proved so high over a period of years that the insurance was discontinued, the cumulative Federal Crop Insurance experienced during the basic experimental period of 10 years, from 1948 through 1957, shows $8,329,837 more paid in than paid out. This provides a small reserve of about 5 per cent of the premiums paid in the last 10 years.

By the use of loss ratios (Table III) the record by years can be examined. The loss ratio is the ratio of indemnities to premiums. It readily indicates the ability or inability to pay losses out of premiums. Any ratio less than one (1.0) indicates a surplus. Any ratio more than one (1.0) indicates a deficit.

One significant fact is the very large variation from year to year. Take, for example, corn insurance. In 1948 and

TABLE II

Premium and Indemnity Experience of Federal All-Risk Crop Insurance, Excluding 14 "Dust Bowl" Counties, U.S., 1948-1957

CROP	PREMIUMS	INDEMNITIES	SURPLUS OR DEFICIT (—)
Wheat	$102,306,066	$ 94,008,223	$ 8,297,843
Cotton	17,451,684	18,157,418	—705,734
Flax	7,517,809	5,815,376	1,702,433
Tobacco	16,888,516	11,856,584	5,031,932
Corn	13,505,637	16,881,703	—3,376,066
Beans	1,394,461	1,719,492	—325,031
Multiple Crop	21,420,275	24,160,639	—2,740,364
Citrus	601,290	388,355	212,935
Soybeans	123,464	91,340	32,124
Barley	291,698	107,333	184,365
Peaches	37,400	22,000	15,400
Total	$181,538,300	$173,208,463	$ 8,329,837

SOURCE: U.S.D.A., Federal Crop Insurance Corporation, A Reappraisal of the Federal Crop Insurance Program, 1958.

1949 only about 1/6 of the premiums were paid as losses. The remaining 5/6 were reserve funds. However, in 1956 corn losses were nearly 3½ times the premiums.

The presence of low or high loss ratios in certain commodities and certain years is not an indication of weakness or strength. Low ratios must counterbalance high ratios over a period of time to provide insurance protection on a self-sustaining basis. The loss ratio table indicates the FCIC has paid out 95 cents in indemnities for each $1 in premium for the trial period on the crops included.

TABLE III

Loss Ratios, Excluding 14 "Dust Bowl" Counties, of Federal All-Risk Crop Insurance, U.S., 1948-1957

CROP	CROP YEAR										
	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957a/	1948a/ 1957
Wheat	.54	1.46	.43	.93	.65	.99	1.21	1.11	1.09	.61	.92
Cotton	.43	1.97	2.81	.82	.44	1.05	.56	.84	.67	.62	1.04
Flax	.51	.62	.42	.49	.79	.95	.77	.77	.54	2.42	.77
Tobacco	.43	.66	.61	.49	.79	1.90	.89	.40	.28	.34	.70
Corn	.17	.16	1.26	2.38	.25	.17	.56	1.47	3.35	.34	1.25
Multiple Crop	.06	.16	.91	1.37	1.45	.78	1.42	1.38	1.28	.62	1.13
Bran	.29	.64	1.84	3.14	.55	.62	1.60	.66	.96	1.06	1.23
Citrus				0	.04	0	0	.03	.22	3.78	.65
Soybean								.73	.74	.74	.74
Barley									.39	.36	.37
Peaches										.59	.59
All Crops	.50	1.32	.86	1.01	.72	.98	1.09	1.04	1.26	.62	.95

a/ Source data for 1957 crop year are preliminary and include estimates
SOURCE: U.S.D.A., Federal Crop Insurance Corporation, A Reappraisal of .the Federal Crop Insurance Program, 1958.

Federal Crop Insurance Today

The crop insurance protection currently offered farmers is a business insurance offer that pays indemnities to insured farmers when crops fail or are substantially destroyed. For this protection they pay a premium determined from (1) acreage planted, (2) their share in the acreage and (3) the premium rate.

AREA PLANTED × % of OWNERSHIP × RATE of PREMIUM = $ of COST

Starting in 1958, the method of contracting with farmers was streamlined by the combining of the individual policies for each of the crops insured into a standard policy. Under this system, the farmer is issued the standard policy which carries endorsements for the crops that he insures. It is now much simpler to add insurance on additional crops in a county whenever demand and acreage planted justify such expansion.

This change has resulted in wheat, corn and soybeans being insured in Ohio counties where for many years winter wheat was the only crop that could be insured. Also, in recent years, there has been a policy of adding insurance on the additional major crops in all current insurance counties as rapidly as practical. Initial progress in this direction is for the most part being concentrated in the Corn Belt states.

Eligibility

Any person with a bona fide interest in an insurable acreage of the crop(s) on which insurance is offered in that county is eligible to apply. He may be a landlord, tenant, owner-operator or sharecropper. The application will show the crop(s) to be insured and if accepted by the State Director, a policy with the applicable endorsement(s) will be issued. Separate applications are necessary to cover partnerships, but a landlord and tenant may apply under either individual contracts or a joint contract. Insurance will become effective at the time the insurable crop(s) is planted. The State Director will reject applications from individuals indebted to the corporation or with records which cause him to question the insurance risk involved. He may also require payment in advance on doubtful credit risks.

Duration of Policy

The policy issued is a continuous or automatically renewable policy. It remains in effect unless cancelled in writing by the insured or the Corporation before the cancellation deadline for the following crop year specified in the policy.

Once the cancellation date is passed the policyholder knows that he has protection on the next crop regardless of crop conditions. Cancellation deadlines are set well ahead of the planting dates. Thus, there is no tendency for policyholders to make their crop insurance decisions on the basis of good or poor crop prospects. The policyholder who cancels and does not reinstate his contract before the cancellation date is not eligible for insurance on the crop(s) for which the protection was cancelled the following crop year.

Time to File Application

Applications must be filed with the agent before the closing date for a crop insurance year. Usually this application period continues until just before the normal planting period. When crop prospects indicate the risk of loss is increasing or the maximum business quota for the county for that year is reached, the closing date can be advanced by the corporation.

Insurable Acreage

Some acreage in most counties is not classified for insurance because it is poorly adapted to the crop or is of such high risk that sound insurance cannot be written on it. An official map and actuarial table in the insurance agent's office shows the amount of insurance per acre and the premium rate for all insurable acreage in the county for each crop on which insurance is offered.

The policy covers all of the insurable acreage in the county in which the applicant has an interest at planting time in the crop(s) insured under his policy. If a producer has acreage in more than one county where insurance is offered, he has the option of applying in either one or both counties.

Insurance Units

Protection is provided, losses are adjusted and premiums computed on the basis of insurance units. Insurance units are determined on the basis of the individuals who share in the crop on an acreage. All acreage in which the in-

Crops grown on river bottom land are ineligible for crop insurance.

sured has 100 per cent interest, whether owned or cash rented, is one insurance unit. Acreage rented for shares from one landlord or to one tenant is a separate unit. Thus, a policyholder can have as many units as he has tenants or landlords. This applies whether the others sharing in the crops have insurance or not.

Amount of Protection

The amount of protection on an insurance unit is determined from the acreage in the unit and the amount of coverage per acre that has been established on the county actuarial table and map. In most counties, the amount of insurance coverage has been set at different levels by areas of productivity by the underwriters. In some cases several areas are established within the county. In others, coverage may be the same with rates varying between areas.

Underwriters could set the coverage at the maximum level that might be permitted under the legislative limitations. In some cases the premium rate required for such protection might be highly impractical. Anyone familiar with crop production will recognize that the all-risk crop insurance premium rate will accelerate sharply as the amount of protection is increased.

The insurance premium rates are established at levels to provide important protection against crop disaster at a reasonable cost. These coverage levels are reworked periodically to provide farmers the best protection possible. This needs to be on a sound insurance basis with experience and production history serving as invaluable guides to what can be done to improve the offers.

The amount of coverage or protection established per acre varies widely over the country; it varies less widely within Ohio. It sometimes varies for the same crop within the same county. The variation is illustrated by Table IV showing for the four crops currently insured in Ohio the coverage per acre nationally and Ohio.

TABLE IV

Federal All-Risk Crop Insurance Coverage Per Acre For Four Crops In Ohio and U.S., 1958

	NATIONAL		OHIO	
CROP	LOW	HIGH	LOW	HIGH
Wheat	$ 7.65	$ 41.13	$ 18.40	$ 33.30
Corn	$ 12.00	$ 44.00	$ 31.00	$ 40.00
Soybeans	$ 12.00	$ 33.00	$ 22.00	$ 28.00
Tobacco	$140.00	$505.00	$324.00	$362.00

SOURCE: Federal Crop Insurance Corporation and Ohio Crop Insurance Corporation Actuarial Divisions

Amount of Premium

Premium rates are established by the underwriters on an area basis. They are shown on the county actuarial maps and tables. The premium rates are required by law to be set at a level believed adequate to cover losses and to provide a reserve against unforeseen losses.

These rates vary widely depending on the crop insured, the risk of the area and the amount of insurance per acre. This variation is illustrated nationally and for Ohio in Table V, which shows dollars of premium per $100 of coverage.

TABLE V

Federal All-Risk Crop Insurance Premium Rates Per $100 Coverage For Four Crops In Ohio and U.S., 1958

(Ohio figure in parenthesis is per acre rate)

CROP	NATIONAL LOW	NATIONAL HIGH	OHIO LOW	OHIO HIGH
Wheat	$2.35	$37.10	$2.45 (.75)	$ 6.00 (1.62)
Corn	$3.00	$17.60	$3.80 (1.18)	$ 7.20 (2.59)
Soybeans	$4.60	$12.50	$5.80 (1.28)	$11.60 (3.02)
Tobacco	$1.85	$12.75	$5.20 (16.85)	$ 5.50 (19.90)

SOURCE: Ohio Crop Insurance Corporation Actuarial Divisions

Methods of Reducing Premium

Insurance rates must be kept at a practical level if farmers are to include it as part of their annual operating cost. Several policy provisions, which work in favor of reducing the cost for the good risks and continuous policyholders are provided. They are:

Co-insurance

Beginning in 1959, in most counties, applicants or policyholders may elect to pay 50, 60, 70, 80, or 90 per cent of the premium. They will collect the same corresponding per cent of any insured loss.

Early Payment Discount

Beginning in 1959, policyholders filing their acreage reports and paying their premium within the time prescribed by the policy will get a 5 per cent discount. Those filing late do not receive this incentive.

Good Experience Discounts

Starting in 1959, for all crops except winter wheat and barley, (1960 for them) policyholders will earn a discount after only three years of consecutive participation without receiving a loss payment. They will receive a 5 per cent discount after the third consecutive year without a loss, 10 per cent after four, 15 per cent after five, 20 per cent after six, and 25 per cent after seven or more. Previously a discount applied only after seven years experience without a loss being paid.

A policyholder with seven or more years of good experience will be reduced to four years when he is paid a loss. He will then receive 10 per cent discount. Those with less than seven years experience will be reduced three years when they are paid a loss.

Method of Insuring

Monetary protection to the policyholder is provided (with a few exceptions such as tobacco, citrus and peaches) by: (1) Guaranteeing a specified amount of production in the insurance unit and (2) Paying an indemnity equal to the amount by which the production falls below the guarantee times the fixed price under the contract. Thus, *the corporation does not guarantee any price for the actual bushels produced but does fix a dollar value on the amount by which the production falls below the guarantee.*

Example: Assume that a farmer has a 100 per cent interest in 30 acres of wheat in an insurance unit and has it insured for $25 per acre. The amount of the protection on the insurance unit would be $750. Assume also the price of wheat fixed for insurance contract purposes in the county is $1.75 per bushel. If the farmer harvested all the acreage and produced only 300 bushels, the production of 300 bushels would be worth $525 at the fixed price under the contract. The indemnity would be $750 less $525 (the value of the production under the contract) or $225. This would be true whether the farmer sold the wheat harvested on the market for $1.00 or $3.00 per bushel. By fixing the price of the commodity under the contract, the Corporation can guarantee the farmer a dollar equivalent for the amount his production is short of his production guarantee.

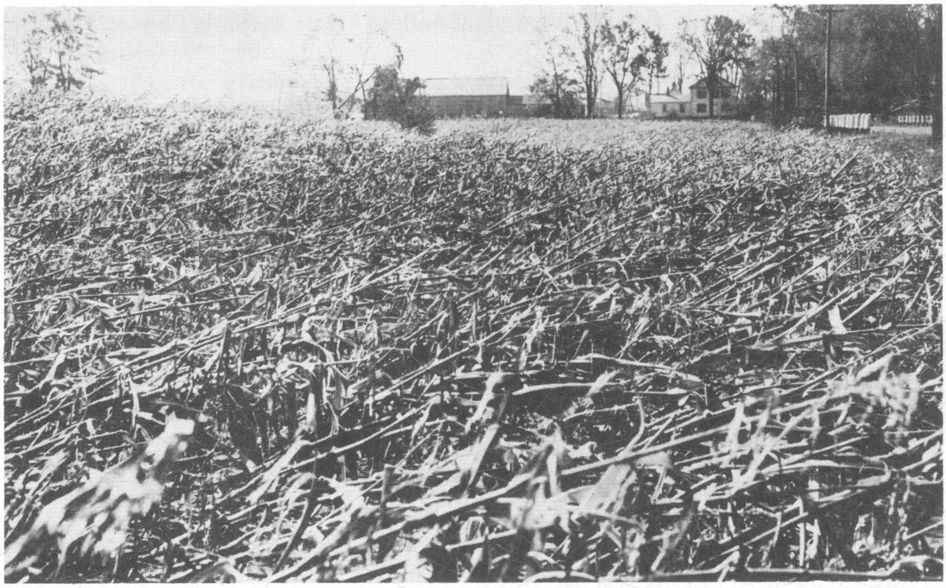
The fixed price is used to value production above a certain quality level set forth in the contract. If the quality is damaged more than the minimum set forth in the contract, that production is valued at something lower than the fixed price, usually the local market value for the damaged production. The losses in quality and quantity are thus blended together into one loss.

In the case of tobacco, it is not practical to use a fixed price because the farmer's production may consist of many varying grades of tobacco with a wide range of value. In tobacco the production is valued generally at the price at which it is sold. In the Ohio tobacco insurance counties, coverages are established in pounds per acre which are converted to protection in dollars by multiplying the total coverage in pounds by the average market price for the crop year.

Stages of Coverage

Early experience in crop insurance resulted in the practice of establishing the coverage in stages or maturity levels for most crops. This was to provide

Tobacco loss due to hail.



Wind damage to corn. U.S.D.A. Photo

protection on a basis whereby the farmer would decide when he wanted acreage released for planting substitute crops. He would forego a full insurance settlement.

Consequently, in crops such as wheat and corn that may be lost early enough to allow planting a profitable substitute crop, there is a substitute crop stage under which substantially damaged crops may be released after appraisal (all or part of the acreage). Under this stage the protection is 50 per cent of the harvested level.

This decision is entirely up to the individual farmer. If he does not plant a substitute crop, the protection moves to the unharvested stage which is 90 per of the harvested. This, in effect, is the total loss stage. When crops are harvested, the loss represents the difference between the harvested coverage and the actual production.

Example: Using the earlier wheat example, if all acreage on the insurance unit was destroyed or severely damaged and the policyholder obtained consent and planted it to a substitute crop, he could be paid 50 per cent of the $750, or $350. If he did not plant a substitute crop, and the insured crop produced nothing, he could be paid 90 per cent of the $750, or $675. Thus, in a rough degree the protection follows the farmer's cost of production. The payment in the substitute crop stage would be made regardless of how profitable the corn, soybean or other substitute crop which the farmer planted might be.

The corporation requires that insured acreage not be put to another use until it has been appraised and consent granted by one of its adjusters for plowing, pasturing or making other use of the insured acreage. If the damage is sufficient, approval can be obtained to plow or pasture insured acreage and receive the indemnity based on the 90 per cent coverage stage, if no substitute crop is planted.

In the case of soybeans, there is no substitute crop stage, since this crop can normally be replanted as late as any substitute crop can be planted. A basic requirement in all crop insurance policies is that if a crop is destroyed while there is still time to replant, that crop must be replanted in order for the insurance to be effective. With the exception of crops lost and not replanted while there is time to replant, the insurance becomes effective at planting and the protection continues through harvest or a date specified in the policy as the end of the insurance period. The insurance period ends considerably after the harvest is normally completed in the county.

Tobacco is also an exception in the stages of coverage with 65 per cent of the harvested coverage applying to the acreage of the crop destroyed prior to harvest. However, in order to qualify for the harvested coverage on any insured acreage only 10 per cent of the harvested pound coverage must be harvested from such acreage, so there are only a few tobacco losses that are not settled at the harvested stage.

Addition of New Counties

Starting a crop insurance program in a new county with the Federal Crop Insurance Corporation depends upon a number of things. One is the interest exhibited by farmers and farm leaders in the initiation of all-risk insurance in the county. When interest develops it should be made known to the State Director. A county where good participation can be built may be put on the schedule for addition at the earliest possible date.

Addition of new counties also depends on the amount of expansion the corporation can make. Both budget and trained personnel for establishing a new program are limiting factors in gradual expansion of the insurance operation to new counties.

Once a county is approved for the insurance, the underwriters must establish coverages and rates for the crop(s) to be insured. Then they map the county for insurance with the aid of the best state and local information available.

After the actuarial basis has been established for the county, an agent or agents for handling the insurance in the county must be selected. Applications covering at least 200 farms in a county must be written before the insurance can go into effect. In some cases there can be less than 200 farms providing one-third of the eligible farms normally producing the commodity are covered. These requirements are designed to assure the minimum participation needed to spread the risk and provide a reasonable administrative unit. It is the starting point for an expanding service and representative insurance experience.

Summary

The possibility of crop disaster should be considered in all good farm planning. It is a possibility on every farm, even in Ohio. Many feel a sound system of insuring all or a major part of the crop investment is more important today than it has ever been . . . to the farmer . . . to those with whom he trades . . . to those who extend him credit . . . to those who work with him toward improved methods and continued stability, etc.